



Examination of Health Care Cost Trends and Cost Drivers

Pursuant to G.L. c. 6D, § 8

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Health Care In Massachusetts

We benefit from:

- Shared responsibility of employers, individuals, health plans and providers
- Highly rated health plans and hospitals
- Model for health care reform

We are challenged by:

- Trends in health care spending exceeding economic growth
- Lack of price transparency
- Lack of incentives for right care at right location

Massachusetts Is a National Leader in Health Care Reform

YEAR	MASSACHUSETTS HEALTH CARE REFORM	
2006	Chapter 58 – Health Reform	
	<ul style="list-style-type: none"> • Individual Mandate • Employer Responsibility 	<ul style="list-style-type: none"> • Medicaid Expansion • Insurance Exchange
2008	Chapter 305 – Cost Containment Legislation I <ul style="list-style-type: none"> • AG Authority to Examine Cost Trends 	
2010	Chapter 288 – Cost Containment Legislation II <ul style="list-style-type: none"> • Transparency • Tiered/Limited Network Products • Reform of Unfair Contracting Practices 	
2012	Chapter 224 – Cost Containment Legislation III <ul style="list-style-type: none"> • Oversight of Payment Reform & Provider Registration • Benchmark Health Spending to Gross State Product • Price Transparency for Consumers 	

AGO Cost Trend Examination

Examined recent market efforts designed to improve health care cost and use:

1. How are purchasers responding to new health plan designs and transparency?
2. How are health plans moving to incent purchasers and providers to make value-based decisions?
3. How and why are provider groups realigning to deliver care?

1. PURCHASERS

Employers and individual health care purchasers have increasingly:

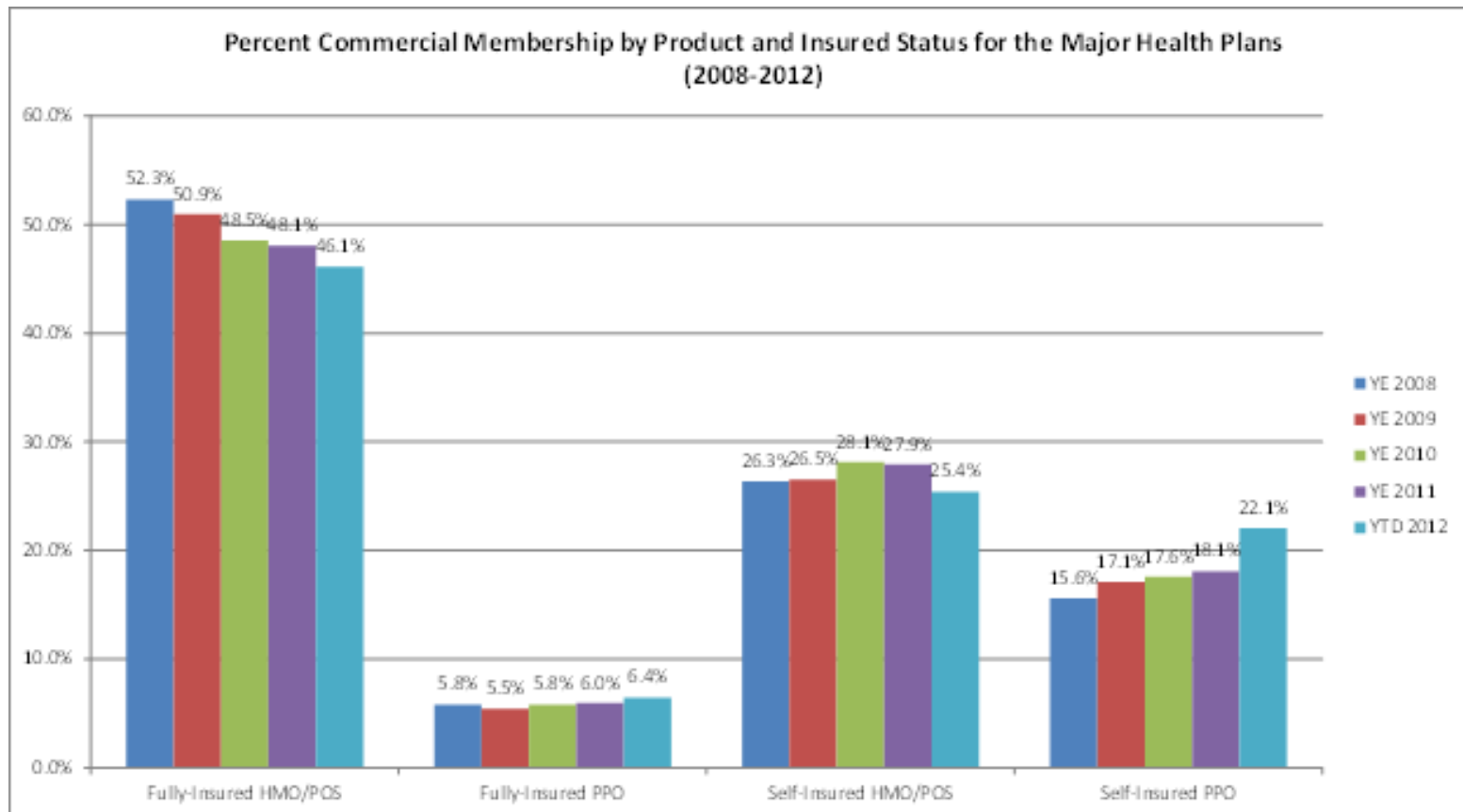
- Moved to health insurance products with tiered networks
- Moved to PPO products and away from HMO products
- Moved to high-deductible health plans

Purchasers Increasingly Moving to Tiered and Limited Network Products

Growth in Tiered v. Limited Network Membership

	YE 2008		YTD 2012	
	Tiered	Limited	Tiered	Limited
BCBS	12,987	0	168,656	0
FCHP	0	34,402	13,142	40,169
HPHC	47,490	0	88,938	3,852
THP	108,693	1,848	154,177	8,666
Total	169,170	36,250	424,913	52,687

Purchasers Have Increasingly Moved To PPO Products, Including Self-Insured PPO Products, And Away From Fully-Insured HMO Products



Purchasers Have Increasingly Moved To High-Deductible Products

- From 2008 to 2010, proportion of individual market enrolled in high-deductible products increased from 45% to 55%.
- During same time period, small group plan enrollment in high-deductible products increased from 2% to 27%.
- Trends in Massachusetts are consistent with national trends.

Purchaser Decisions Affect Health Plans and Providers Implementing Risk Contracts

- Increased enrollment in PPO impacts provider performance under risk and PPO/HMO revenue streams.
- Consumer incentives under products that encourage value-based purchasing may come into tension with provider incentives.
- Products designed to help consumers make value-based decisions can also help providers direct patients to the appropriate care at the appropriate location.

2. HEALTH PLANS

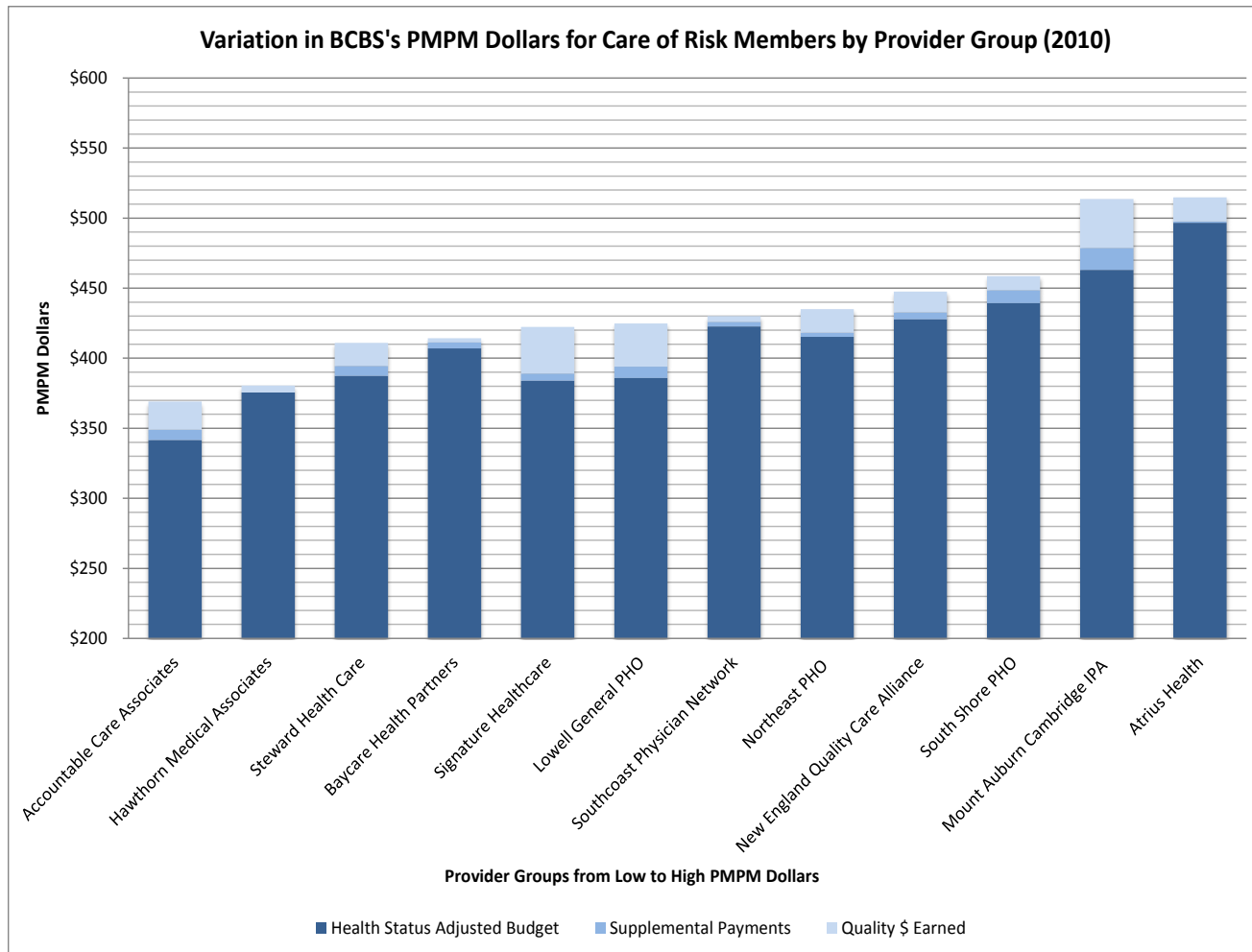
Health plans negotiate different amounts with providers to care for patients of comparable health, reflected in variation in:

- Risk budgets
- PPO and HMO payment rates
- Across providers serving different populations that vary by health status and geographic area

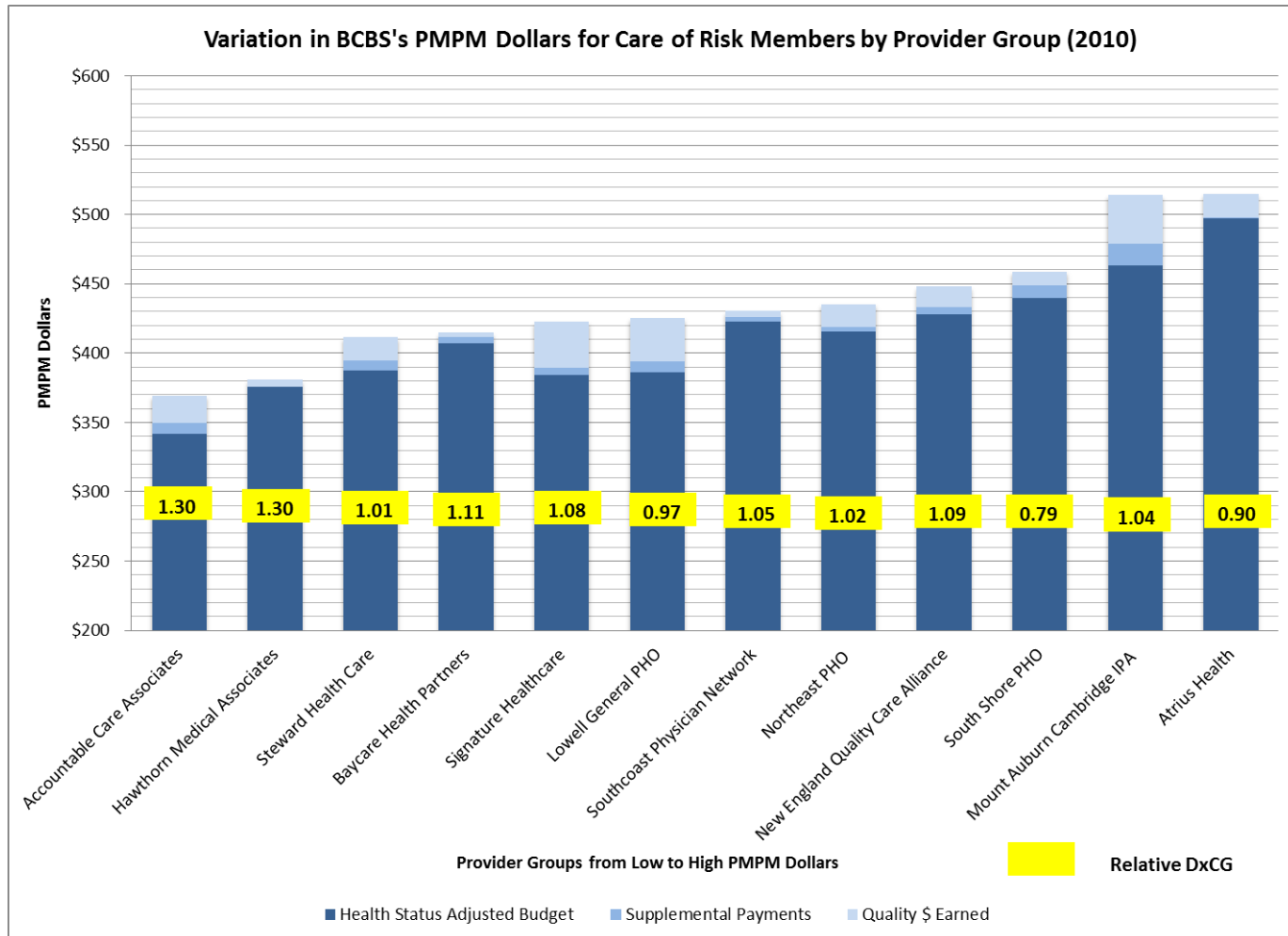
Health plan product designs impact:

- Risk selection (consumer purchasing based on health)
- Total medical spending
- Care management

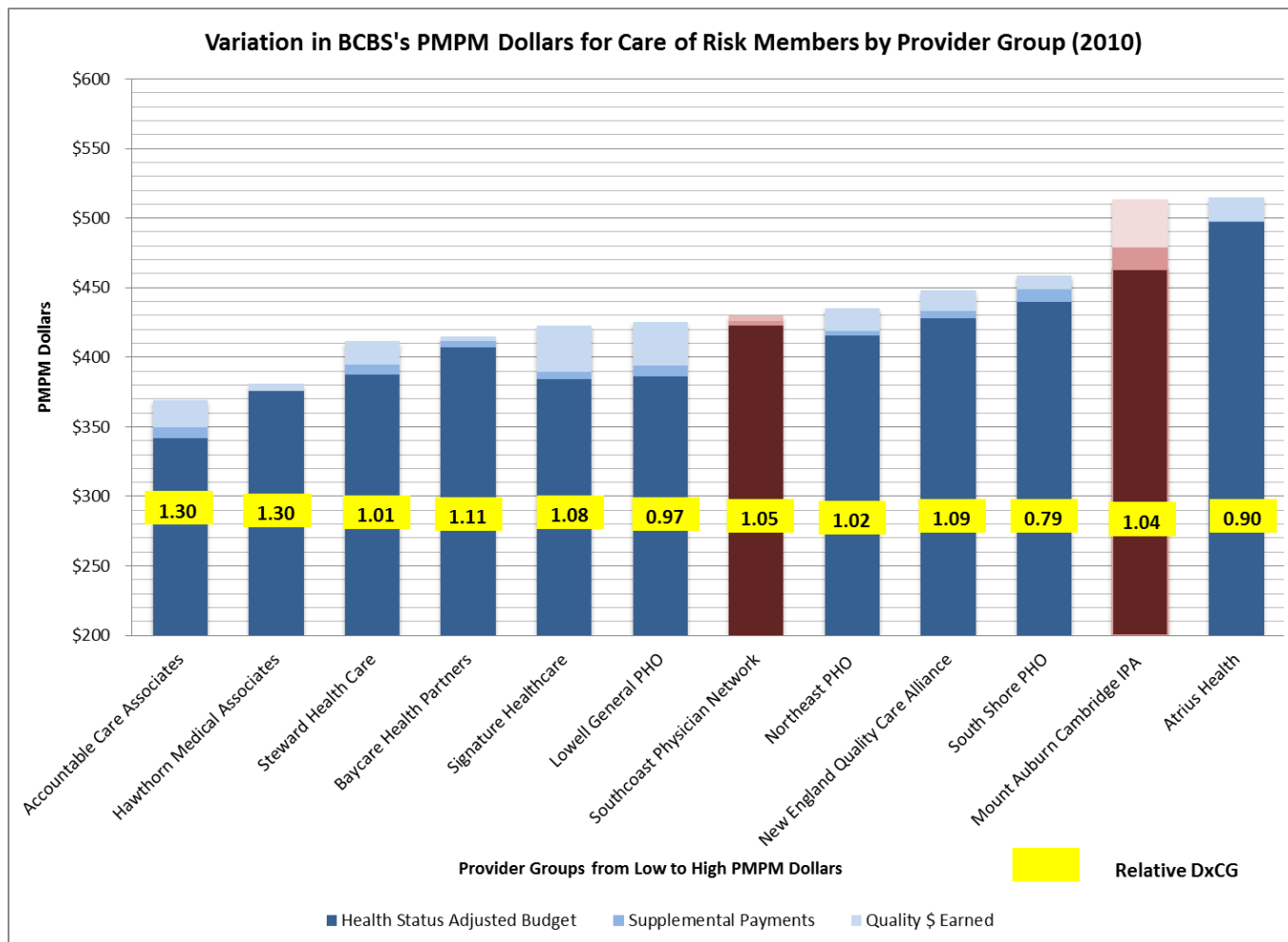
Variation in Risk Budgets Not Explained by Health Status of Populations Being Care For



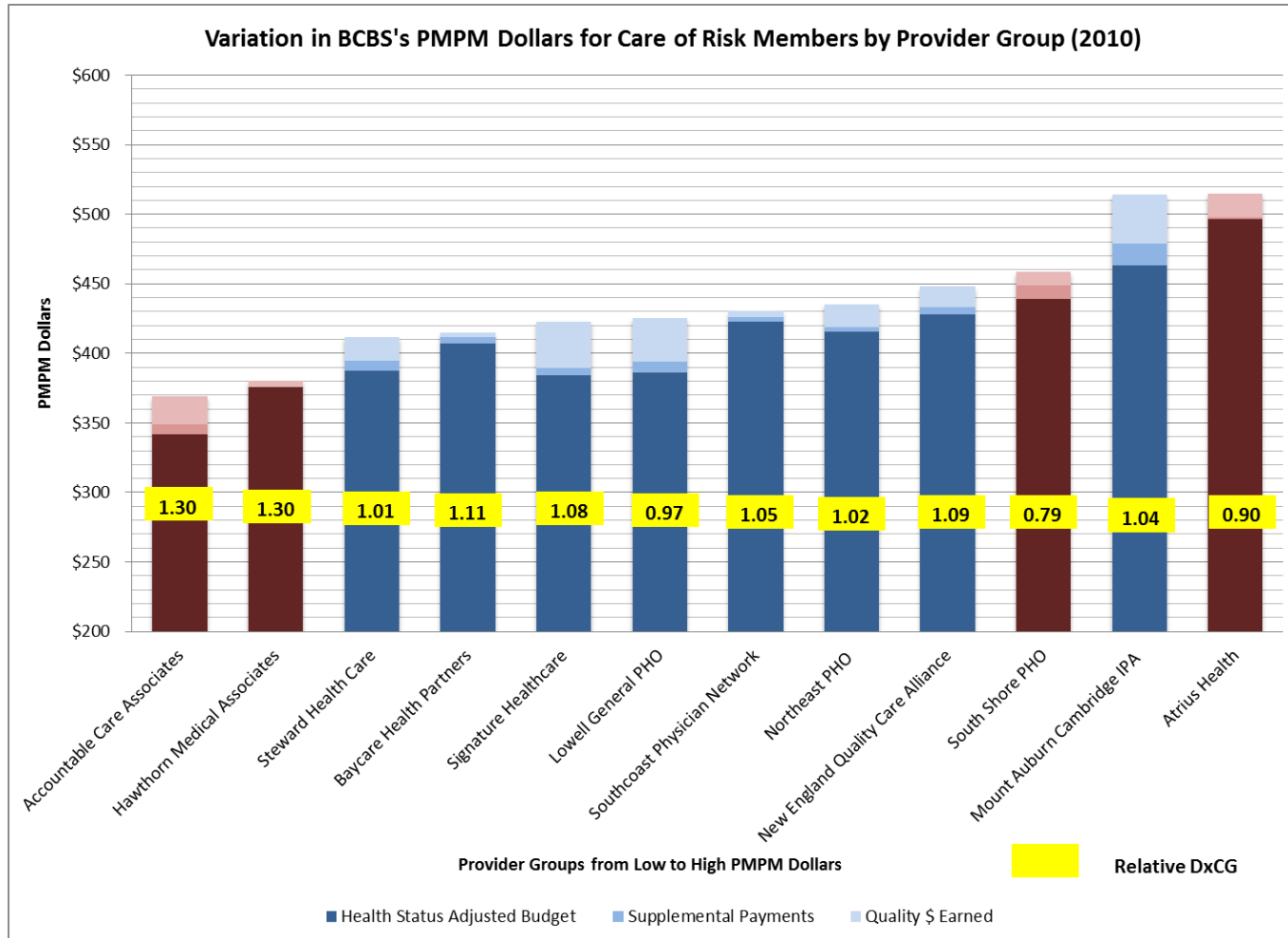
Providers Care for Very Different Populations Under Risk Contracts



Budget Variation Significant Even for Providers Caring for Populations of Equivalent Relative Health Status (1.04-1.05)

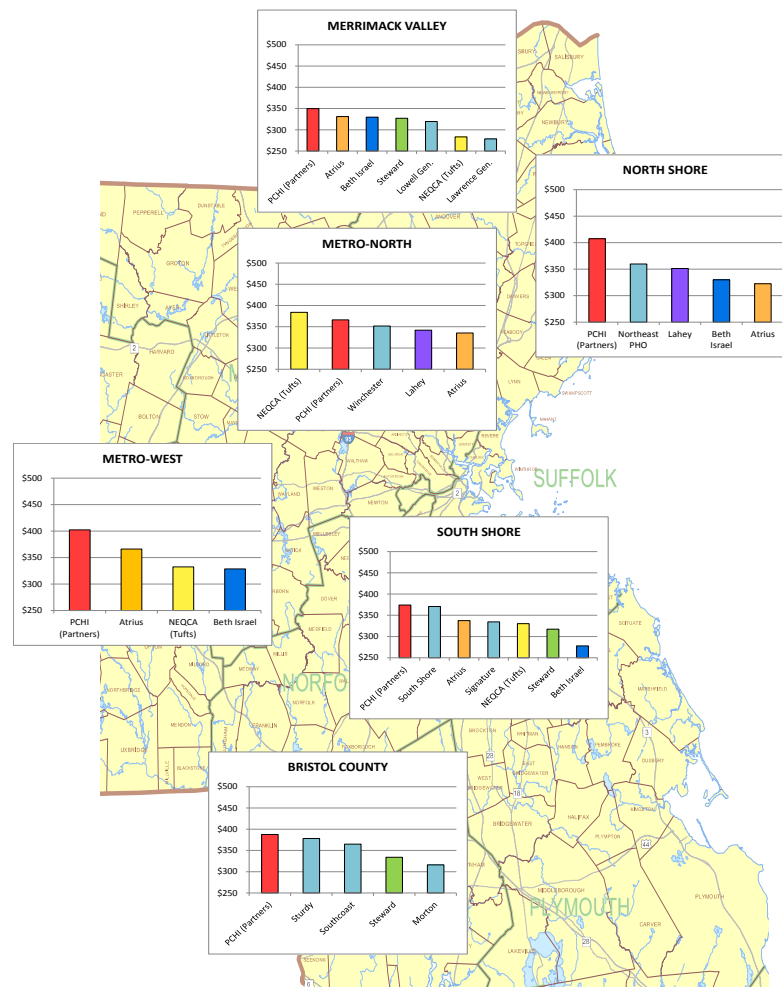


Budget Variation Significant for Providers Caring for Very Different Populations

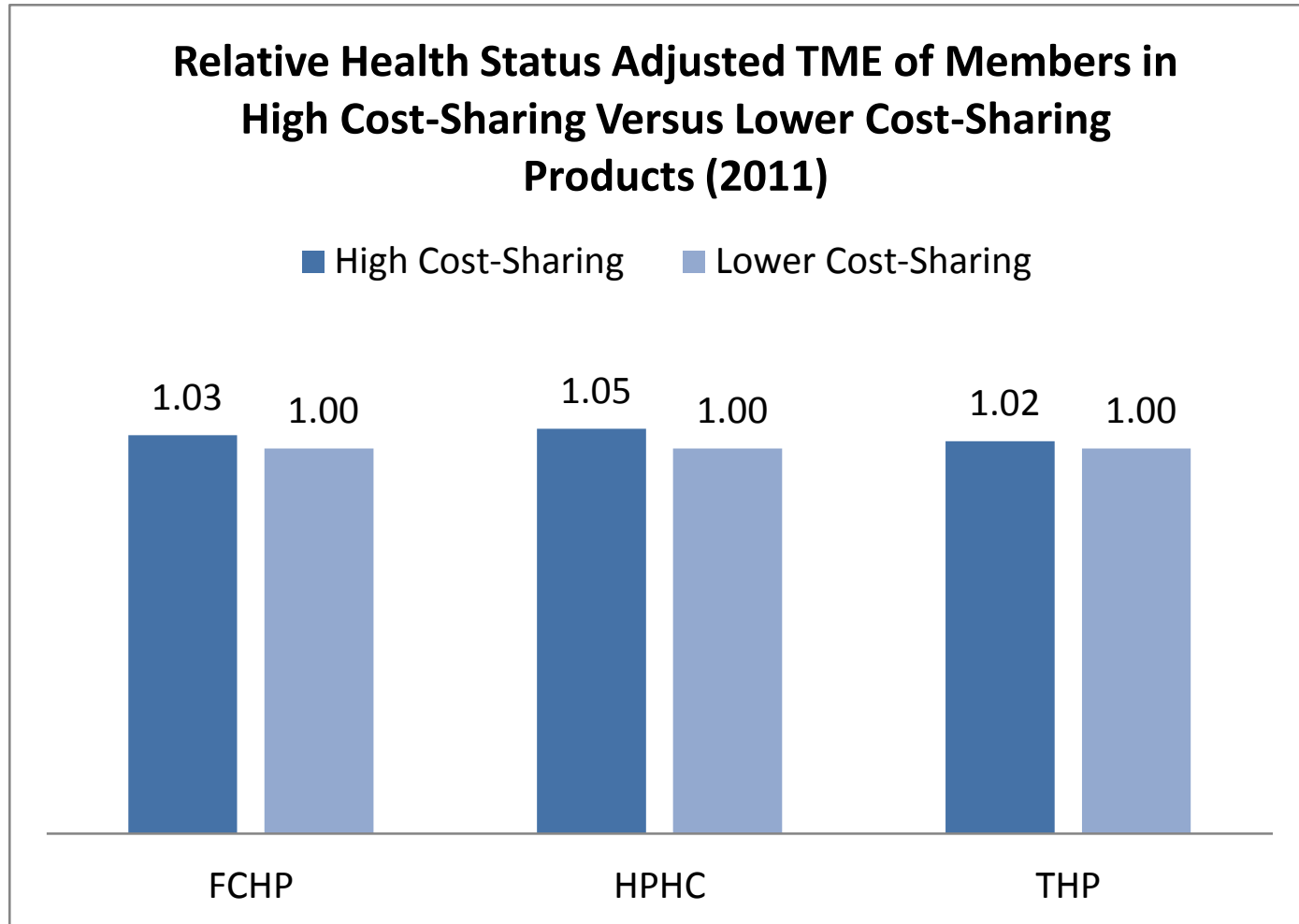


Variation in Provider TME Exists Across Massachusetts and Within Separate Geographic Areas

Variation in a Major Health Plan's Provider Group TME by Region (2011)



Certain Products Appear to Be Associated with Lower Medical Spending on a Health Status Adjusted Basis



Health Plans Can Support Prudent Purchasing and Incentivize Efficient Care Delivery

- Risk contracts and other payment arrangements can encourage efficient, high quality care delivery if reimbursement is tied to value.
- Products can encourage consumers to seek appropriate care at the appropriate location.
- We should continue to examine the performance of different products to assess their impact on costs and care delivery.

3. PROVIDERS

- Providers are entering new risk contracts and are taking on increased insurance risk without consistent mitigation by health plans.
- Provider consolidations and alignments are taking place without adequate analysis of the potential benefits and cost implications.

Providers Are Taking On Increased Insurance Risk Without Consistent Mitigation By Health Plans

ADJUSTMENTS PRESENT IN 2012 RISK CONTRACTS				
	BCBS	HPHC	THP	CMS (P-ACO)
Health Status	Yes	Sometimes	Sometimes	No
Mandated Benefits	Sometimes	No	No	Yes
Unit Price	Sometimes	No	No	n/a

The Impact of Provider Alignments Should Be Measured and Monitored

- Providers serve patient populations that vary by health status and size:
 - 2011 health status scores of provider systems with the least healthy populations ranged from 1.7 to 2.3 times that of provider systems with the healthiest populations for three major MA health plans.
 - Acton Medical Associates manages roughly 6,100 risk lives under three commercial risk contracts.
 - Larger systems manage more than 50,000 risk lives under individual risk contracts.
- Potential benefits of provider alignments should be balanced against concerns of increasing market leverage and reducing consumer options.

Providers Can Support Prudent Purchasing Decisions and Efficient Care Delivery

- Providers should support prudent purchasing decisions by directing patients to obtain the right care at the right location.
- Providers should support efficient care delivery through internal efforts to coordinate care and by directing care to more efficient providers when appropriate.

Data Accuracy

- Data Sources
 - Publicly Available
 - Information received directly from carriers and providers
- Importance of Data Accuracy
- Data Improvements

Working Together

- We must continue to work with purchasers, health plans and providers to promote a value-based health care market.
- We need timely and accurate information to monitor and address tensions and unintended consequences that may result from efforts by purchasers, health plans and providers to change how we use and pay for health care services.

Protecting Consumers

- The Office of the Attorney General will continue to use its authority to promote appropriate transparency to empower consumers to make value-based decisions.
- We will continue to use our authority to protect consumers from unfair practices that restrict access to necessary health care services, including behavioral health care services, or result in inflated costs.

RESOURCES

- Attorney General's Examinations of Health Care Cost Drivers:
 1. <http://www.mass.gov/ago/docs/healthcare/2011-hcctd-full.pdf>
 2. <http://www.mass.gov/ago/docs/healthcare/final-report-w-cover-appendices-glossary.pdf>
 3. <http://www.mass.gov/ago/docs/healthcare/2013-hcctd.pdf>
- Massachusetts Health Care Cost Containment Legislation:
<http://www.malegislature.gov/Laws/SessionLaws/Acts/2010/Chapter288>
<http://www.malegislature.gov/Laws/SessionLaws/Acts/2012/Chapter224>
- Center for Health Information & Analysis Reports:
<http://www.mass.gov/chia/docs/r/pubs/13/ar-ma-health-care-market-2013.pdf>
<http://www.mass.gov/chia/docs/r/pubs/13/relative-price-variation-report-2013-02-28.pdf>